

Message Text

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FOLLOWING REPEATS STATE 78995 ACTION BONN LONDON PARIS ROME OTTAWA
2 APR

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E.O. 11652: N/A

TAGS: EAID, EFIN

SUBJECT: WORLD BANK, IMF SALARY ADJUSTMENTS

REF: (A) STATE 183492 AUG. 4 1975;
(B) STATE 155396 JULY 1, 1975;
(C) STATE 84204 APRIL 13, 1975.

1. EMBASSY REQUESTED HAND CARRY TO HOST FINANCE MINISTERS
THE FOLLOWING LETTER FROM SECRETARY SIMON. AS INDICATED
THE SECRETARY WILL BE CALLING THE RECIPIENTS WITHIN A FEW
DAYS. YOU SHOULD STRESS IMPORTANCE OF SALARY ISSUE TO USG
IF OPPORTUNITY AVAILABLE.

DEAR

YOU WILL NO DOUBT RECALL MY LETTERS OF LAST APRIL AND
JUNE DEALING WITH OVERALL SALARY INCREASES FOR THE STAFFS
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OF THE IBRD AND IMF, AND INCREASES FOR THE EXECUTIVE

DIRECTORS.

AS YOU KNOW, THE IMF NOW HAS UNDER CONSIDERATION A PROPOSAL TO INCREASE STAFF SALARIES ABOUT 9 PERCENT, 6 PERCENT OF WHICH WOULD COVER THE PAST YEARS' U.S. COST OF LIVING INCREASE AND 3 PERCENT WOULD PROVIDE AN OVERALL REAL OR "STANDARD OF

LIVING" INCREASE. THE IBRD IS CONSIDERING A SOMEWHAT SMALLER INCREASE, BUT ONE WHICH WOULD PROVIDE MORE THAN A COST OF LIVING INCREASE FOR MOST STAFF.

I AM APPALLED THAT OUR MOST RESPECTED FINANCIAL AGENCIES ARE PROPOSING A SUBSTANTIAL INCREASE IN WAGES AT THIS TIME. WE ALL LOOK TO THE IMF TO PROVIDE KEY LEADERSHIP TOWARD POLICIES WHICH WILL PROMOTE GREATER PRICE STABILITY. THE ENTIRE WORLD HAS SUFFERED FROM FAR TOO MUCH PRICE INFLATION DURING THE PAST COUPLE OF YEARS. RATES OF INFLATION HAVE BEEN SUCH THAT AT TIMES IT APPEARED THE WORLD WAS EMBARKED ON A DISASTROUS SLIDE INTO CONTINUAL INFLATIONARY ESCALATION. IN BOTH YOUR COUNTRY AND MINE WE ARE NOW MAKING PROGRESS IN TURNING BACK THIS TIDE OF DAMAGING INFLATION. IN ITS CONSULTATIONS WITH EACH OF US THE IMF IS GREATLY CONCERNED WITH INFLATION, AS IT SHOULD BE. IT RECOMMENDS POLICIES WHICH WILL CAUSE MOST GROUPS OF OUR CITIZENS TO FACE MAJOR CONSTRAINTS ON THEIR LIVING STANDARDS AS PART OF THE FIGHT AGAINST INFLATION. THE IMF SEEMS TO BE CONSISTENT ON THIS POLICY UNTIL IT COMES TO SALARIES OF ITS OWN STAFF.

SIMILARLY THE IBRD HAS GREAT RESPONSIBILITIES FOR RECOMMENDING POLICIES TO DEVELOPING COUNTRIES. MOREOVER, AT A TIME WHEN INCREASING SACRIFICES FROM OUR CITIZENS ARE REQUIRED TO SUPPORT IDA, IT IS INEXPLICABLE THAT THE BANK SUGGESTS SUCH INCREASES IN THE SALARIES FOR THOSE

ADMINISTERING THE PROGRAM.

THE U.S. VIEW HAS BEEN TO OPPOSE GRANTING ANY SALARY INCREASE, SINCE EVEN THE DOCUMENTS PRESENTED BY THE BANK LIMITED OFFICIAL USE

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AND FUND FAIL TO ESTABLISH A CONVINCING ECONOMIC CASE. NEVERTHELESS, THE IMF MANAGING DIRECTOR AND IBRD PRESIDENT ARE PRESSING THEIR CASE AND SOME MEMBER GOVERNMENTS HOLD DIFFERING VIEWS. UNDER THESE CIRCUMSTANCES, I WOULD BE PREPARED TO SUPPORT, AS A BASIS FOR COMPROMISE, A MORE MODEST COST OF LIVING INCREASE PATTERNED AFTER THE ADJUSTMENTS RECENTLY AGREED TO BY ALL MEMBERS OF THE "COORDINATING COMMITTEE OF BUDGET EXPERTS (CCG)", WHICH DETER-

MINES SALARY ADJUSTMENT FOR FIVE INTERNATIONAL ORGANIZATIONS, INCLUDING NATO AND THE OECD. I UNDERSTAND YOUR GOVERNMENT AND IN FACT ALL OECD COUNTRIES ARE SUPPORTING THIS FORMULA. WE COULD SUPPORT AN ADJUSTMENT OF IMF AND IBRD SALARIES THAT WOULD PROVIDE A COST OF LIVING INCREASE ON A SCALE DECREASING FROM THE LOWER TO THE HIGHER SALARY BRACKETS. AT THE LOWER, NON-PROFESSIONAL, LEVELS THE FULL AMOUNT OF THE COST OF LIVING INCREASE WOULD BE GRANTED

WITH ONLY 75 PERCENT BEING ALLOWED IN THE FOUR HIGHEST PROFESSIONAL BRACKETS. I FIND THIS "TAPERING" JUSTIFIED IN PART BY THE FACT THAT THE SALARIES IN QUESTION ARE FREE OF INCOME TAX AND THEREFORE THE SENIOR INDIVIDUALS, WHOSE SALARIES ARE ALREADY VERY HIGH, WOULD NOT HAVE THEIR INCREASES ERODED BY BEING FORCED INTO HIGHER TAX BRACKETS. IN ADDITION, THERE SHOULD BE NO INCREASES FOR THOSE INDIVIDUALS WHOSE SALARIES ARE AT, OR ALREADY EXCEED, THE SALARIES OF EXECUTIVE DIRECTOR.

OF COURSE, THE SALARY LEVELS OF THESE INSTITUTIONS SHOULD BE SUFFICIENT TO RECRUIT AND RETAIN STAFF OF THE APPROPRIATE QUALITY. HOWEVER, THE VERY LOW TURNOVER RATES AND EXCEEDINGLY HIGH RATIO OF APPLICANTS TO VACANCIES TESTIFY TO THEIR ALREADY GENEROUS REMUNERATION LEVELS. IT IS ENTIRELY APPROPRIATE THAT THESE TWO INSTITUTIONS BE SUBJECT TO THE SAME FINANCIAL DISCIPLINE THAT THEY PRESCRIBE TO CONSTITUENT COUNTRIES IN THE COURSE OF THEIR REGULAR WORK. PUBLIC AND LEGISLATIVE SUPPORT FOR THESE INSTITUTIONS WILL BE UNDERMINED IF SALARIES PAID TO STAFFS OF INSTITUTIONS DEDICATED TO ECONOMIC STABILITY AND THE PROBLEMS OF THE LESS-DEVELOPED WORLD CONTINUE TO RISE EXCESSIVELY.

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FOR LONDON - OUR PROPOSAL FOR DEALING WITH IBRD-IMF SALARY ADJUSTMENTS BEARS A RESEMBLANCE TO YOUR CURRENT WAGE POLICIES IN THE UK. AS WE UNDERSTAND IT YOUR ANTI-INFLATION PROGRAM INCLUDES A MAXIMUM 6 POUNDS PER WEEK INCREASE FOR THE COMING YEAR, WHICH WE CALCULATE WILL WORK OUT TO ABOUT 11 PERCENT IN FACE OF A COL INCREASE OF OVER 20 PERCENT. THIS SEEMS TO INDICATE THE EXTENT OF YOUR GOVERNMENT'S COMMITMENT TO LESS THAN FULL COL WAGE INCREASES - I.E. - A REJECTION OF STRICT INDEXING.

FOR PARIS - I KNOW THAT THE FRENCH AUTHORITIES ARE KEENLY AWARE OF THE WAGE PRESSURES IN THE PUBLIC AS WELL AS THE PRIVATE SECTOR. LIKE THE UNITED STATES, FRANCE HAS A NUMBER OF INTERNATIONAL ORGANIZATIONS LOCATED WITHIN ITS BORDERS, AND YOU CAN APPRECIATE THE IMPACT WHICH

EXCESSIVE WAGE SETTLEMENTS IN INTERNATIONAL BODIES CAN EXERT ON SALARY PROBLEMS IN THE HOST COUNTRY.

FOR BONN - YOUR GOVERNMENT, YOUR INDUSTRY, AND YOUR LABOR UNIONS RECOGNIZE THE VITAL IMPORTANCE OF ADHERING TO THE BASIC ELEMENTS OF ANTI-INFLATIONARY POLICIES SUCH AS MODERATING WAGE INCREASES. DESPITE SOME RECENT PROBLEMS, SUCH POLICIES IN THE FEDERAL REPUBLIC HAVE, ON THE

WHOLE, BEEN EXTREMELY SUCCESSFUL. I URGE THEREFORE THAT YOU EXTEND YOUR APPROACH IN THESE MATTERS TO THE INTERNATIONAL ORGANIZATIONS AND THAT YOU SUPPORT MY POSITION REGARDING IMF-IBRD SALARIES, JUST AS GERMANY HAS ADVOCATED A SIMILAR STAND IN THE CCG.

FOR OTTAWA - YOUR GOVERNMENT THROUGH ITS ANTI-INFLATION PROGRAM IS ATTEMPTING TO CURB THE RAPID GROWTH OF PUBLIC SECTOR WAGES IN CANADA. ACCORDINGLY, I HOPE THAT YOU WILL SEE THAT IT IS APPROPRIATE TO PLACE SIMILAR RESTRAINTS ON THE SALARIES OF THE IMF/IBRD.

FOR ROME (COLOMBO) - I HAD THE GREAT PLEASURE OF HAVING CONVERSATIONS WITH YOU AND MINISTER STAMMATI JUST RECENTLY, AND RECALL THEREFORE YOUR INTENSE CONCERN WITH THE INFLATION PROBLEM - NOT JUST IN ITALY - BUT WORLDWIDE. I REMEMBER PARTICULARLY YOUR SPEAKING ABOUT EFFORTS TO LIMITED OFFICIAL USE

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BREAK THE WAGE-COST-OF-LIVING ESCALATOR. MY POSITION WITH RESPECT TO IBRD/IMF ATTEMPTS TO DO JUST THAT - ALTHOUGH NOT TO THE DEGREE I WOULD LIKE. I HOPE THEREFORE THAT YOU WILL ADOPT THE SAME LINE IN THE INTERNATIONAL INSTITUTIONS. IT WOULD NOT, I SUGGEST, BE LOGICAL TO TRY TO HALF THE DOMESTIC ESCALATOR AND AT THE SAME TIME APPROVE AN ESCALATOR-TYPE POLICY IN THE IBRD/IMF END FOR ROME.

WE HAVE FULLY EXPLAINED OUR POSITION TO MESSRS. MCNAMARA AND WITTEVEEN. I URGE THAT YOU AGREE WITH MY COMPROMISE APPROACH AND, GIVEN THE FACT THAT FINAL PROPOSALS ARE ABOUT TO BE MADE THAT YOU CONVEY YOUR SUPPORT AS SOON AS POSSIBLE DIRECTLY TO MCNAMARA OR WITTEVEEN OR THROUGH YOUR EXECUTIVE DIRECTORS.

I WOULD LIKE THE OPPORTUNITY OF DISCUSSING THIS SUBJECT WITH YOU AND SHALL TELEPHONE YOU WITHIN A FEW DAYS.

SINCERELY YOURS,

WILLIAM E. SIMON

2. THE LETTERS SHOULD BE ADDRESSED TO THE MINISTER OF
FINANCE AS FOLLOWS:

BONN - DEAR HANS
LONDON - DEAR DENIS
PARIS - DEAR JEAN PIERRE
ROME - DEAR EMILIO
CANADA - DEAR DON
KISSINGER UNQUOTE KISSINGER

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